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March 16, 2009

AGENDA ITEM 11b

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Corporate Governance Proxy Resource Pool
- II. PROGRAM:** Global Equity
- III. RECOMMENDATION:** Approval to issue a Spring-Fed Pool Request for Proposal (RFP) for Corporate Governance Proxy Activities.
- IV. ANALYSIS:**

Executive Summary

Staff is requesting approval to issue a Spring-Fed Pool Request for Proposal (RFP) for Corporate Governance proxy activities. CalPERS continues to promote and encourage corporate governance reform at individual portfolio companies. CalPERS uses shareowner proposals as one tool to promote reform and supports the proposals through the use of consulting firms in the current Proxy Spring-Fed Pool, which expires on December 20, 2009.

Background

In June 2003, the Investment Committee approved the Global Equity Annual Plan which included a Proxy Spring-Fed Pool for Corporate Governance. In March 2004, the Investment Committee approved staff's request to issue a RFP with a Spring-Fed Pool feature for corporate governance resources. The permanent funding of \$300,000 for the Proxy Spring-Fed Pool continues to be part of the Global Equity budget.

In July 2004, staff issued a RFP to establish a Spring-Fed Pool of pre-qualified firms from which the Corporate Governance Unit could draw for proxy solicitation

services. There are currently four vendors in the Proxy Spring-Fed Pool that actively provide solicitation services for CalPERS. The Proxy Spring-Fed Pool will expire on December 20, 2009.

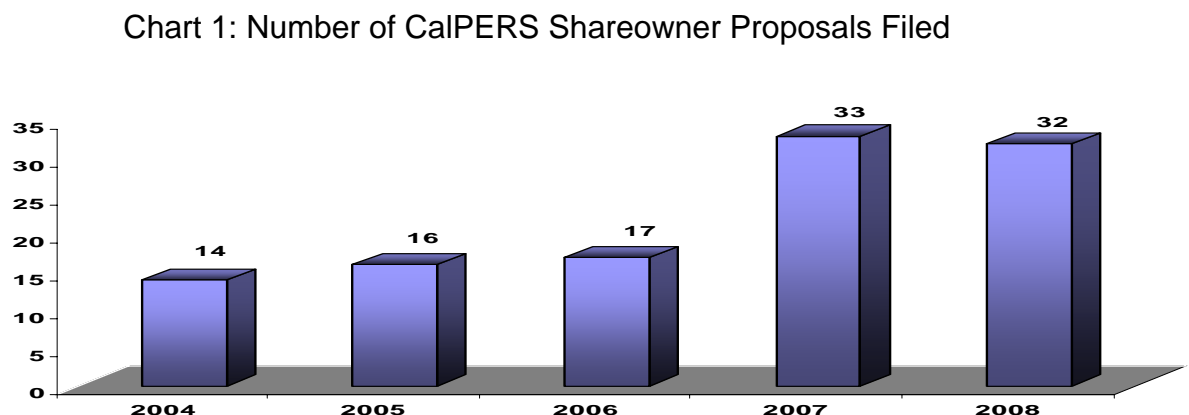
The Proxy Spring-Fed Pool allows staff to hire proxy solicitors in a timely fashion which helps achieve the following objectives:

- Promote and encourage corporate governance reform at individual portfolio companies to improve domestic, international, and emerging governance standards, and investment performance.
- Enhance and execute CalPERS proxy voting responsibilities, corporate governance engagement, and governance initiatives consistent with the Investment Committee's Global Principles of Accountable Corporate Governance.

To continue meeting objectives of the program, staff is requesting the Committee approve the issuance of a new resource pool for proxy solicitation services. Similar to the current Proxy Spring-Fed Pool, the new RFP would establish a group of qualified firms for three years with the option to extend the contracts for up to two successive one-year periods.

Fiscal Year 2007-08 Proxy Season

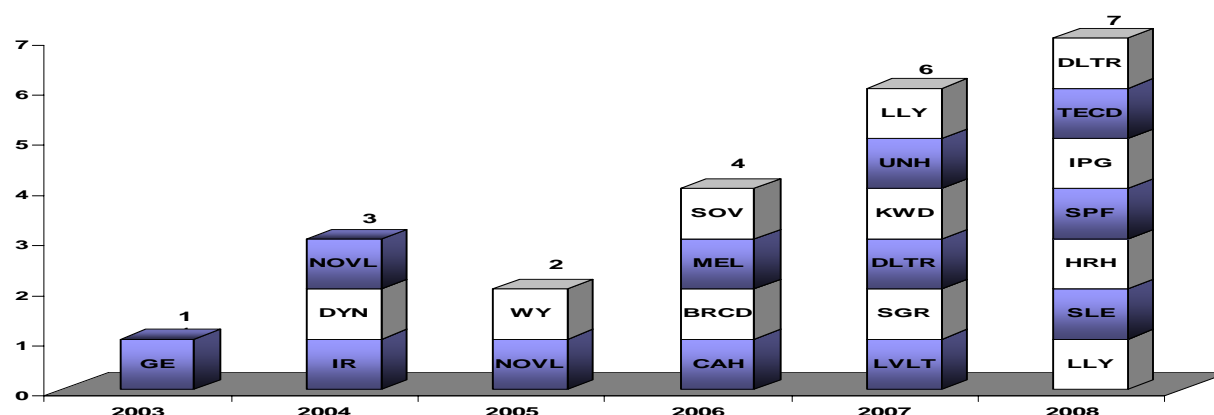
The FY 2007-08 proxy season was an exceptional year demonstrating CalPERS shareowner proposal accomplishments. Chart 1 shows the number of shareowner proposals filed by CalPERS since the Proxy Spring-Fed Pool was established.



A number of the filed proposals were eventually withdrawn, primarily due to companies agreeing to adopt corporate governance practices as a result of CalPERS engagement. However not every proposal was withdrawn and a

number of CalPERS proposals eventually made it to the corporate proxy voted on by shareowners. These are the instances where vendors in the Proxy Spring-Fed Pool were hired to solicit support for CalPERS proposals. Chart 2 shows the growth in the number of CalPERS proposals on corporate proxies, requiring greater use of the Proxy Spring-Fed Pool.

Chart 2: Number of CalPERS Proposals in the Proxy



CalPERS FY 2007-08 proposals have achieved significant results averaging investor vote support of 65 percent. Any vote which receives shareowner support of at least 50 percent, a majority of votes cast, is a success. Table 1 details the individual CalPERS resolutions that were filed and subsequently voted on during the FY 2007-08 proxy season. The high average investor support levels for CalPERS proposals demonstrates increased effectiveness in obtaining significant voting support through proxy solicitation campaigns.

Table 1: CalPERS Proposal – Filed and Voted On in FY 2007-08

Company	Shareowner Proposal Subject	Shareowner Support
Dollar Tree (DLTR)	Board Declassification	82%
Hilb Rogal & Hobbs (HRH)	Board Declassification	79%
Sara Lee (SLE)	Shareowner Ability to Amend Bylaws	79%
Standard Pacific (SPF)	Board Declassification	72%
Tech Data (TECD)	Executive Compensation Shareowner Advisory Vote	61%
Eli Lilly (LLY)	Shareowner Ability to Amend Bylaws	49%
Interpublic Group (IPG)	Executive Compensation Shareowner Advisory Vote	33%

Fiscal Year 2008-09 Proxy Season

CalPERS is already very active in filing proposals for the FY 2008-09 proxy season and has filed 35 proposals. Many of these proposals have already been distributed to proxy vendors so they may begin formulating their strategy for solicitation. Although some of these proposals may be withdrawn because of concessions by the companies, we anticipate many going to vote and thereby continuing to use the funds available in the current Proxy Spring-Fed Pool.

V. STRATEGIC PLAN:

This item will further the following goals of CalPERS Strategic Plan:

- Goal I, Exercise global leadership to ensure the sustainability of CalPERS' pension and health benefits systems.
- Goal IX, Achieve long-term, sustainable risk adjusted returns.

VI. RESULTS/COSTS:

Permanent funding of \$300,000 for the Corporate Governance Proxy Resource Pool was established when the original RFP was approved by the Board. For the 2007-08 fiscal year, \$270,000 of the \$300,000 was encumbered for proxy solicitation services. Staff is not requesting an increase in budget. Staff believes the existing budget will be sufficient to effectively implement CalPERS shareowner proposal initiatives. If the committee approves the issuance of the RFP, funds will only be encumbered on an as-needed basis.

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